

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 TAIPEI 003766

SIPDIS

SENSITIVE

DEPT PASS TO AIT/W AND USTR
DEPT FOR EAP/TC, EAP/EP, EB/IFD/OIA AND NKWG
TREASURY FOR OASIA MOGHADER AND OCC AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE BOARD OF GOVERNORS,
SAN FRANCISCO FRB AND NEW YORK FRB

E.O. 12958: N/A

TAGS: [ECON](#) [PINR](#) [KCRM](#) [KTFN](#) [TW](#) [HK](#)

SUBJECT: TAIWAN MONEY BROKER BLUES

REF: TAIPEI 3288

[11.](#) (SBU) Hong Kong professional money laundering investigator Peter Gallo (reftel) has written a letter to warn AIT about possible negative consequences of USG efforts to crack-down on unlicensed money brokers. AIT/Econ thought the letter contained some interesting points and that it might also be of interest to Washington agencies. The entire text of the letter is given in para 2. AIT has supplemented the text with some explanations.

[12.](#) (SBU) Begin text of Gallo's August 30, 2005 letter:

The anti-money laundering project that I was engaged on when I met you in Taiwan has taken a turn for the worse, and my client (a Hong Kong bank) now has a serious problem caused by US regulatory policy that is threatening to put them out of business.

What is more worrying, however, is that this seems to be a problem being faced by Money Service Businesses (MSB) throughout the United States. I am concerned that it will create a very serious situation that will affect money laundering in many countries in Asia.

The problem is that my client's US clearing bank, under pressure from their regulators, (the Office of the Controller of the Currency) have now informed them that they can no longer accept this business because it involves parties who are operating in Taiwan without a license.

If my client is forced to close down, a number of perfectly legitimate (if unlicensed) brokers in Taiwan, who have operated in this business since 1949 - and who actually WANT to be properly licensed) will be driven further underground, losing any goodwill or any hope of co-operation in the future. (Note: Taiwan law enforcement authorities do not see these unlicensed brokers as legitimate, but rather as clearly in violation of the law.)

If they were engaged in anything fundamentally criminal, I would have absolutely no sympathy, but I have investigated the situation myself in some detail and found that this is just not the case.

Indeed, despite being &illegal8) they are very anxious to comply with anti-money laundering requirements.

The problem is that the US regulators are simply obsessed with money remittance companies right now. I have spoken to colleagues in the US who tell me about many other businesses where US banks closed their accounts and put them out of business.

I understand that Bank of America has just sent out letters to EVERY MSB customer they have in the US telling them that they are closing their accounts, so this is going to have an effect on money remittance companies all across Asia.

If it has not already done so, it is only a matter of time before the problems start. My belief is that if the legitimate operators are closed down, this will just create an opportunity that criminals and terrorists will fill instead.

We must accept the reality that there is a flow of US dollar cheques into Taiwan. If these cannot be cashed by legitimate MSBs, it will create a gap in the market that Organized Crime will be only too willing fill. To date, the &underground banking8 business in Taiwan has remained remarkably free of Triad involvement, but that may change.

At the moment, that cheque discounting activity is being run on a commercial basis, and despite the fact it is labeled illegal, the parties engaged in this business can trace any cheque and identify where they got it. If this activity falls into the hands of criminal syndicates, that will simply no longer be possible.

Criminal syndicates could buy these cheques and mail them into the US to be cashed on a piecemeal basis, leaving great gaps in the paper trail that will frustrate any subsequent investigation.

The Taiwan situation, however, pales into insignificance compared to the problems facing migrant workers in the US from Pakistan; if they cannot use money remittance companies, they will resort to using whatever services are available to them.

If the US authorities actually believe that they will immediately form an orderly queue at the local bank, they are deluding themselves; banks have never been competitive in this business, their services are too expensive and slow, and in many cases, the recipient of the funds does not have a bank account, and will be in a rural area many miles away from a bank branch anyway.

I have no doubt that someone in the community will offer the service informally; and in the case of Pakistan in particular, this could well mean terrorist-related entities.

Instead of doing anything to prevent the flow of funds to terrorists; the US bank regulators could actually be delivering the business to them.

We assume that US cheques in Taiwan have no terrorist connection, but if the legitimate established operators get out of this business and other less reputable entities move in to fill the gap, there is not telling whose hands those cheques will pass through.

The fact that those cheques would not appear to be connected to any jurisdictions of concern, or any entities on the OFAC list, makes them particularly attractive for Islamic extremist terrorists.

We have already seen how the 7/7 bombers in London were selected because they did NOT fit the pre-established profile. I believe that &non-obvious8 strategy will extend to finding ways of moving money around that does not conform to a profile that we are already expecting.

The use of third party cheques, particularly involving an unconnected third country, would be ideal for this.

This whole misguided approach is ridiculous and something has to be done about it. Creating conditions that encourage the growth of illegal money remittance services at the expense of legitimate companies is insane; it creates a serious problem where none currently exists.

I am bringing this to your attention because I believe something has to be done about it at an official level, and hopefully done before it is too late.

On the other matter (North Koreans seeking currency exchange and investment opportunities in the Philippines), I will go to Manila as soon as my contact is back there.

Sincerely

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End text of letter.
KEEGAN